

**Statement of  
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U.S. House of Representatives  
Congressional Steel Caucus  
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Good Morning. My name is Joseph Carrabba and I am Chairman, President and CEO of Cliffs Natural Resources, based in Cleveland, Ohio. I would like to begin by thanking the Co-Chairmen, Congressman Murphy and Congressman Visclosky, and all the Caucus Members and staff, for inviting me to participate in this hearing today.

Cliffs Natural Resources is an international mining and natural resources company, and a leading supplier to the American steel industry. Cliffs is the largest producer of iron ore pellets in North America and a significant producer of metallurgical coal – two critical raw materials used in the production of raw steel by integrated steel companies. We provide approximately 6,000 high-wage jobs in the United States and own or manage ten iron ore mines in Michigan, Minnesota, Canada and Australia. We also operate six coal mines in West Virginia and Alabama that primarily produce metallurgical coal.

Cliffs' role in the domestic steel industry can be summed up in one of our company slogans: "Steel Starts Here". By responsibly extracting our natural resources and processing those materials into value-added steelmaking commodities, Cliffs stands at the very foundation of our manufacturing economy. We have been in business since 1847 and we are proud of our contribution to U.S. industrial revolution, the domestic steel industry and our positive economic impact on the communities where we operate. I truly believe that the success of the American manufacturing sector relies on our ability to cost-effectively produce iron and steel in North America from raw materials such as the iron ore we mine in Minnesota and Michigan and coal from places like West Virginia and Alabama.

Cliffs' sustained presence in America's manufacturing economy is a prime example of how steel production in the United States provides economic benefits well beyond those generated by steel manufacturing alone. In a report for the American Iron and Steel Institute released just this week, Professor Timothy J. Considine of the University of Wyoming noted that steel is the most prevalent material in the U.S. economy, and the steel industry is highly interrelated with other economic sectors. As a result, steel's economic contributions are multiplied many times over through its purchases of products and services from other economic sectors, its indirect support of hundreds of

thousands of jobs along the supply chain, and its generation of billions of dollars in local, state and federal tax revenues. Professor Considine found that for every \$1 increase in sales for iron and steel mills and ferro alloy industries, total output in the U.S. economy increases by \$2.66. Furthermore, each job in America's steel industry supports seven jobs in the U.S. economy.

We believe that the manufacturing sector is crucial to the revival of the nation's economy. Companies like Cliffs and the steel producers represented here today invest hundreds of millions of dollars each year in equipment, physical facilities and technology to ensure that our businesses are globally competitive. These massive investments are the engines that create high value products for export, provide citizens with good-paying jobs with benefits, and are ultimately the foundation of strong communities that are able to provide top-notch schools and community services to their residents.

But companies like Cliffs, our customers in the steel industry and other manufacturers in North America face significant challenges to their international competitiveness due to a host of factors, including high tax rates, energy costs, inadequate investment in infrastructure, increasing regulatory burdens and foreign unfair trade practices. Since 2000, 5.6 million U.S. manufacturing jobs have been lost because of the lack of aggressive policies to promote this important sector here in America. That is why we support a national pro-manufacturing agenda to ensure U.S. manufacturers and other capital-intensive American industries are able to compete in today's global economy. One key aspect of such an agenda is tax reform that will promote increased investment in manufacturing plant and equipment.

A number of proposals have been put forward in recent months to reduce the corporate tax rate from the current 35% – the second highest corporate rate in the developed world – to 28% or even 25%. While we support the effort to make the U.S. corporate rate more globally competitive, many of these proposals seek to pay for that rate cut by eliminating a number of corporate credits and deductions that are critical to promoting investment and creating American jobs. If not properly structured, a swap of credits and deductions for a lower rate could well result in a net tax increase on capital-intensive companies such as Cliffs, our domestic steelmaking customers, and manufacturers of all kinds. For example, an analysis of the tax reform plan proposed by the Bowles-Simpson Commission on Fiscal Responsibility and Reform showed that the result would be roughly a \$48 billion tax increase on manufacturing, while granting tax cuts to the retail and financial services sectors. This would be disastrous for our industry and its workers.

In order for tax reform to produce real economic growth and job creation, the tax code should not simply be changed to preference less capital-intensive sectors of the economy. Rather, the key benchmark for determining an appropriate rate reduction

must be an analysis of what is needed to promote the international competitiveness of U.S. industry. For instance, studies by the Tax Foundation indicate that in order to match the corporate tax rate of China and the simple average rate of the OECD countries, the U.S. federal corporate tax rate would have to be reduced to approximately 20%. We appreciate and are sensitive to the fiscal challenges that such a rate presents, and to the extent that such a rate is not achievable, we would assert that certain important incentives in the tax code that promote investment in manufacturing should be maintained.

We were encouraged to see the President highlight the importance of manufacturing in his recently released *Framework for Business Tax Reform* by proposing a corporate rate of 28%, with an effective tax rate for manufacturers of 25%. The proposal achieves this lower rate for manufacturing by preserving and refocusing the domestic production activities deduction, an important tax provision that must be preserved. Manufacturing in the tax reform context must be defined in such a way to include all industries that truly “make things” domestically, whether the product is iron ore pellets, steel coil or automobiles. In our business, I assure you we do, indeed, undertake an advanced manufacturing process. Cliffs extracts iron-bearing rock from the ground at the size of a Ford Fiesta. This rock initially has approximately 25% iron content. From there we crush it, screen it and reduce it to face powder consistency. We separate the silica by-product and roll the iron ore concentrate into pellets with approximately 60% iron content that are then hardened in a furnace at over 2,400 degrees Fahrenheit. These pellets ultimately end up in the steel used by the automotive, heavy machinery, appliance and construction industries.

While the President’s plan appears to be a step in the right direction, we are concerned it also proposes to focus a disproportionate share of the tax benefit on what is identified as “advanced manufacturing.” Now we certainly believe that production of both finished steel and inputs to the steelmaking process should qualify as “advanced manufacturing.” In fact, when the Administration released its Framework for Revitalizing Manufacturing in December 2009, it referred to today’s American steel industry as “modern, hi-tech, green and globally competitive.” But in the past, some in the Administration have appeared to distinguish between traditional manufacturing industries like steel and new sectors like the renewable energy industries. If such a distinction resulted in higher tax burdens on the steel industry compared to other manufacturers, we would be put at a severe disadvantage. Furthermore, the deployment of clean energy technologies, such as wind turbines, hybrid vehicles and improved electric transmission, are all reliant on the production of steel. We believe federal tax policy should allow steelmakers to cost-effectively produce steel for these advanced technologies right here at home, thereby maximizing the positive economic impact of investment in these new technologies.

We would also note that there are a few provisions in the President's proposal that cause significant concern within the industry. Specifically, the proposal calls for the elimination of accelerated depreciation, citing the Administration's belief that reducing tax rates would provide the same incentive to investment. We disagree. An enhanced capital-cost recovery system has always been viewed as one of the most effective ways to spur real business investment and to make U.S. manufacturing more competitive. It provides capital-intensive manufacturers with the increased cash flow that is the lifeblood of a business. Simply put, we urge you not to sacrifice accelerated depreciation in order to pay for a lower corporate tax rate. Both are essential to fostering economic growth and employment in the United States.

The President's proposal also explicitly eliminates the last-in, first-out (LIFO) method of accounting inventories. This would have a significant impact on a number of steel manufacturers as LIFO has been used by some companies since the 1940s. The Administration's proposal to repeal LIFO would impose a significant tax increase on these manufacturers, which include suppliers to and customers of the steel industry.

Lastly, we urge against the elimination of other tax provisions that account for the unique capital investment required to extract and process natural resources needed for steelmaking. The percentage depletion deduction, set at a fixed percentage of the income from mining property, recognizes the unique nature of mining investments. Mining requires significant financial commitments to long-term projects to deliver a competitive product at a low margin. Enormous amounts of capital must be expended at the front end of mining projects to realize future returns. With such sizable capital costs, cost recovery through percentage depletion is critical to the global competitiveness of domestic operations, as well as the long-term viability of the domestic steel industry and manufacturers that rely on a stable supply of domestically produced raw materials needed for production.

As is always the case with tax policy, the devil is in the details. Corporate tax reform, if properly constructed, can provide the environment American companies need to expand and increase production and exports, create jobs, and aid in our economic recovery, which is an essential component to addressing the current fiscal crisis facing the United States. In order to do this, Congress must put forth a tax reform plan that improves our competitiveness relative to our major global trading partners and does not result in a net tax increase on companies that most add value to the economy.

As an industry, we stand ready to work with both Congress and the Administration in this regard and are open to assessing different policy proposals when significant details are provided.

Thank you for your time and for the invitation to appear before you today.